

Evaluating Economic Development Programs

Overview

Federal, state and local governments spend billions of dollars annually on economic development programs. Evaluation of these programs to determine effectiveness has often been resisted. This occurs for various reasons, but most center on the cost incurred to monitor and evaluate these programs. There are various levels of evaluation available, ranging from simple process monitoring, to outcomes evaluation, and finally to true cost/benefit or net impact evaluation.

Defining Economic Development Evaluation

Estimates show that federal, state and local governments spend approximately \$30 billion on "economic development" every year. Roughly 80% to 90% of these resources are in the form of tax incentives targeted towards various industries or areas. The remaining 10% to 20% are spent directly by economic development programs.

Methodologies

Evaluation methodologies range from simple process and outcome evaluations to sophisticated impact evaluations that attempt to distinguish changes due to the program from other non-program factors. The following sections will outline the evaluation continuum and offer some examples as illustration. Process evaluations focus on how a program is delivered. Outcome evaluations focus on the program's results. Impact evaluations attempt to assess the relative magnitude of a program's net benefit.

Process Evaluations:

Monitoring and Program Assessment. The first level of evaluation, monitoring activities, simply examines the internal working of a program. The evaluation typically examines program management: whether contractual obligations are being met, staff resources are allocated efficiently, the program is administratively sound, and staff is adequately trained for their jobs. These process evaluations may result in calls for better planning, increased targeting of resources, and improved monitoring of program activities.

The next level of evaluation is assessing program activities. Whether the right activities are taking place, the target of the activity is being met (businesses, cities, citizens), problems or needs are being addressed, clients are satisfied, and whether the program has a favorable image or could be implemented more efficiently.

Enumerating Outcomes. The next approach is to document outcomes, with the assumption that the results are directly attributable to the economic development program. Quantifying outcomes allows one to further demonstrate whether program objectives have been achieved. Typical questions at this level include: "what is the result of the activities described in the process evaluation," and "how has the target group or area been affected?"

Process and outcome evaluations are by far the most common form of assessment and are widely used in the Department of Community and Economic Development (DCED), the Division of State History, the Division of Fine Arts, the State Library, and the Division of Indian Affairs. The Division of Housing and Community Development and its various federally funded grant programs also carry on these two levels of evaluation.

Measuring Effectiveness. The real difficulty in evaluating economic development programs is in trying to determine what would have happened if the program did not exist. It is hard to determine what would have occurred if the program had existed because of the many changes taking place in the world, such as the "business cycle." These exterior influences may make it look as though the program works when it actually does not, or, conversely, makes it look as though the program does not work when it actually does. For some economic development programs, "selection bias" may make the programs look worse than they actually are. For example, the various state Enterprise Zone programs target and provide assistance to areas that are generally inhospitable to businesses due to problems with high crime, high unemployment, poor infrastructure, inadequate labor skills, and low consumer demand. These issues are subjective to so many exterior sources, it is extremely difficult to determine program effectiveness.

Comparison Groups. One widely used way to measure the effects of economic development programs is to compare the performance of program participants with a group of non-participants. Both groups are measured before and after the program and their differences are compared. An example of this type of evaluation is conducted on the activities of DCED's National Business Development Program. This program coordinates state and local economic development resources for the purpose of recruiting companies from outside of Utah that will create jobs with above average wages. Like the preceding levels of evaluation, National Business Development enumerates program outcomes.

Control Groups. Another process evaluation technique is to compare the performance of program clients/participants to a control group. The significant difference between this design and the comparison group design is that clients/participants are assigned to the program and control groups are selected randomly. The firms in the program group receive program assistance and those in the control group do not. This approach is rarely used in the economic development community because it requires deliberately denying services to eligible clients who may desire and qualify for assistance. Consequently, this option is resisted at most levels of government. This type of study was conducted a decade ago by Utah on its job training programs and showed that, controlling for self-selection bias, job training programs in Utah significantly increased participants' long-term earnings.

Surveys. To supplement process and outcomes evaluations, many programs have asked clients to assess their impact. However, for firms that receive direct financing, there may be some incentive to misrepresent the effects of the financing.

Costs-Benefit Analysis. Simply because a program meets a certain goal, like creating better paying jobs, does not mean that the program "pays for itself". Cost-benefit analysis attempts to determine whether the program benefits outweigh the program costs. Although cost-benefit analysis is conceptually the best way to approach economic development evaluation, or indeed any other public policy evaluation, it can be difficult to apply in practice. Many programs find it difficult to put a dollar value on programs benefits. For instance, it is a formidable task to try to put a value on increased access to information through an on-line library system, or on amenities that may increase the "quality of life."

Impact Evaluation. At the final, highest level, cost-benefit analysis requires the use of sophisticated demographic and fiscal impact models. Most of the businesses receiving IAF grants are also evaluated using the state's fiscal impact model, currently the widely utilized REMI model, to determine the net impact to the state.

Impact evaluation is often expensive in its demands for data and expertise in statistics and economic modeling. The federal government and major national research organizations have attempted a handful such evaluations, and the results are widely disseminated to economic development agencies that use, or may use, similar programs.

Conclusion

All of the state level economic development programs in Utah currently use one or more of these types of evaluations. Many local economic development programs are also beginning to implement such evaluations at various levels, and will continue to do so as the use of development zones, tax increment financing, tax abatements and other types of economic development tools increase.